

## RELEVANT REGULATIONS AND RULES IN THE PRC

### RULES AND REGULATIONS APPLYING TO THE GROUP'S OPERATION

#### Solid waste import license

Under current PRC laws and regulations, the Group is required to apply for a solid waste import license in order to import solid waste, such as PET chips from overseas.

To apply for a solid waste import license, the Group is required to submit the application form, the effective business license of the importer, the certificate of incorporation of the overseas supplier, the customs declaration registration certificate of the importer and the annual report on the environmental risks of imported waste to the Ministry of Environmental Protection of the PRC. Since the quantity and category of imported waste on each import license are fixed, the solid waste import license should be applied for from time to time based on the requirement of the Group's operations. The Group can apply for additional import licenses if required. Such solid waste import licenses are effective for no more than one year.

The solid waste import licenses the Group holds are under the name of Xinhua Company. The Directors confirm that the Group has been granted all the solid waste import licenses that it applied for during the Track Record Period, and the PRC Legal Adviser has confirmed that the Group has complied with the PRC laws and regulations governing the import of solid wastes.

If the Group is unable to obtain import licenses in the future, it will source all raw materials from suppliers in the PRC, which could include suppliers that have imported the raw materials into the PRC under import licenses obtained by such suppliers.

As advised by the PRC Legal Adviser, the Group's PRC suppliers are not required to apply for licenses to supply solid wastes sourced in the same province in the PRC but under the relevant PRC laws and regulations, these PRC suppliers are required to apply from the local environmental protection bureau for a permit to supply the solid wastes to another province in the PRC. The Group's foreign suppliers are required to obtain a license of registration for overseas supplier enterprise of imported waste materials from the General Administration of Quality Supervision, Inspection and Quarantine of the PRC for the purpose of exporting waste materials to China. The foreign suppliers should (a) be duly incorporated and legally existing; (b) be familiar with the environmental protection laws, regulations and standards of environmental protection control in the PRC; (c) have facilities and testing capacity on environmental protection control; (d) have established a certified quality assurance or environmental quality control system; (e) have stable sources of supply; (f) have implemented environmental protection control measures on the sources of supply; (g) have no record of being involved in any major quality issues related to safety, hygiene and environmental protection in the past three years; and (h) have fixed location of offices or production and with a certain scale of operation. The PRC Legal Adviser confirmed that the Group's foreign waste suppliers have complied with all relevant import regulations and imports of waste materials in the PRC.

Section 13 of the PRC Solid Waste Pollution Prevention and Control Law (2004 Amendment) (《中華人民共和國固體廢物污染環境防治法》) (the "Solid Waste Pollution Prevention and Control Law") provides that solid wastes generated from construction projects and construction of the storage, use, disposal of solid waste projects, environmental impact assessment must be carried out in accordance with law and abide by state construction projects related to environmental management requirements. As

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confirmed by Xinhua Company and reasonably, verified by the PRC Legal Adviser, the Group has compiled the environment impact reports for all its projects involving solid wastes in accordance with the aforesaid requirements.

Under Section 17 of the Solid Waste Pollution Prevention and Control Law, the collection, storage, transportation, utilisation and disposal of solid wastes, units and individuals must take anti-loss, anti-leakage, or other measures to prevent pollution of the environment and no unauthorised dumping and disposal of solid wastes are allowed. Xinhua Company has adopted corresponding measures in relation to the collection, storage, transportation, utilisation and disposal of solid wastes. Also, Xinhua Company has not involved in any unauthorised dumping or disposal of solid wastes. The PRC Legal Adviser confirmed that Xinhua company has complied with the provisions of section 17 of the Solid Waste Pollution Prevention and Control Law.

Section 23 of the Solid Waste Pollution Prevention and Control Law provides that application to the environmental protection administrative department is required for the transfer or removal or disposal of solid wastes out of provinces, autonomous regions and municipalities and such transfer, removal or disposal shall be approved by the environmental protection administration departments of the recipient provinces, autonomous regions, municipalities, otherwise, the transfer, removal or disposal is not allowed. In 2009, Xinhua Company has purchased waste PET chips from a new supplier from Jiangxi Province (the “Jiangxi Supplier”) but no applications and approvals were made and obtained in accordance with the aforesaid provisions by the supplier. According to section 68 of the Solid Waste Pollution Prevention and Control Law, the people’s government above the county level environmental protection administrative department shall order to stop violations within a time limit and impose a fine of more than RMB10,000 but below RMB100,000 for any violations of the above provisions. According to the oral inquiry with Jiangxi Province Environmental Protection Bureau by the PRC Legal Adviser, it is the responsibility of the waste suppliers to apply for the approval to transfer, remove or dispose of the wastes out of the province. The PRC Legal Adviser is of the view that Xinhua Company is not the responsible party to apply for the approval and that it has not made the aforesaid application will not have any material adverse impact on Xinhua Company. The Directors confirmed that the Group’s existing internal control system in selecting its suppliers has been focusing on the quality of the raw materials and it has not specifically included compliance with regulatory requirements as part of evaluation process of its suppliers. Having aware that the Jiangxi Supplier is not complying with the Solid Waste Pollution Prevention and Control Law, the Group has requested the Jiangxi Supplier to comply with the relevant requirements and the Group has not renewed the supply contract with the Jiangxi Supplier upon its expiry on 31 December 2009. On 12 January 2010, the responsible Jiangxi Province environmental protection administration departments granted the relevant approvals to the Jiangxi Supplier to supply the solid wastes to Xinhua Company. The PRC Legal Adviser confirmed that the Jiangxi Supplier has obtained the relevant approvals from the responsible environmental protection administration departments under the Solid Waste Pollution Prevention and Control Law in relation to the supply of solid wastes to Xinhua Company. In the light that the Jiangxi Supplier has complied with the relevant regulatory requirements under the Solid Waste Pollution Prevention and Control Law, on 14 January 2010, Xinhua Company entered into a framework supply contract with the Jiangxi Supplier whereby the Jiangxi Supplier agreed to supply to Xinhua Company waste PET chips from the date of the supply agreement up to 31 December 2010 at a price not higher than that the Jiangxi Supplier offers to other customers.

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Since 2010, apart from sourcing raw materials within Fujian Province, the Group has also been assessing potential suppliers from other provinces on their compliance with relevant regulatory requirements and engage suppliers from other provinces who have complied with the requirements under the Solid Waste Pollution Prevention and Control Law and are able to produce documentary supporting, before formally engaging these suppliers. As such, the Directors are of the view that the Group is able to source sufficient raw materials to cater for its production needs.

### **Environmental protection**

The State Environment Protection Administration Bureau is responsible for the supervision of environmental protection in, implementation of national standards for environmental quality and discharge of pollutants for, and supervision of the environmental management system of, the PRC. Environmental protection bureaus at the county level or above are responsible for environmental protection within their jurisdictions.

Below are the environmental protection laws and regulations which are relevant to the Group's operation:

The "Environmental Protection Law" (中華人民共和國環境保護法), which became effective on 26 December 1989, requires entities that operate production facilities that may cause pollution or produce other toxic materials to take steps to protect the environment and establish an environmental protection and management system. The system includes the adoption of effective measures to prevent and control exhaust gas, sewage, waste residues, dust or other waste materials. Entities discharging pollutants must register with the relevant environmental protection authorities.

The "Environmental Protection Law" and the "Administrative Regulations on Environmental Protection for Construction Project" (建設項目環境保護管理條例) stipulate that prior to the construction of new facilities or expansion or transformation of existing facilities that may cause a significant impact on the environment, a report on the environmental impact of the construction project shall be submitted to the relevant environmental protection authorities. The newly constructed production facilities cannot operate until the relevant department is satisfied that such facilities are in compliance with all relevant environmental protection standards.

Pursuant to the requirements of the "Environmental Protection Law", any production facilities that could possibly cause pollution or other public hazards shall adopt measures on environmental protection and shall establish a system on environmental protection and administration. Effective measures shall be adopted to prevent and control the pollution and harm caused to the environment by the emission of exhaust air, sewage, waste residues, dust, malodorous gas, radioactive substances, noise, vibration and electromagnetic radiation. Enterprises that discharge pollutants shall register with the relevant environmental protection authority. The State Environmental Protection Administration shall formulate national standards on emission of pollutants in accordance with the national standards on environmental quality, and the State economic and technological conditions. Governments at the provincial level and of the autonomous regions and municipalities may formulate their respective local standards on the discharge of pollutants for items not specified in the national standards. The local governments may formulate local standards which are more stringent than the national ones. Pursuant to the requirements under the amended "Law on Prevention of Water Pollution of the PRC" (中華人民共和國水污染防治法), which became effective on 1 June 2008, "Law on Prevention of Air Pollution of the PRC" (as

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amended) (中華人民共和國大氣污染防治法), which became effective on 1 September 2000 and “Administrative Regulations on Levy and Utilisation of Sewage Charge” (排污費徵收使用管理條例), which became effective on 1 July 2003, enterprises which discharge water or air pollutants shall pay discharge fees pursuant to the types and volume of pollutants discharged. The discharge fees are calculated by the local environmental protection authority which shall review and verify the types and volume of pollutants discharged. Once the discharge fees have been calculated, a notice on payment of discharge fees shall be issued to the relevant enterprises.

In accordance with the Solid Waste Pollution Prevention and Control Law, which became effective on 1 April 2005, entities and individuals collecting, storing, transporting, utilising, or disposing of solid wastes shall take precautions against the spread, loss, and leakage of such solid wastes or adopt such other measures for preventing such solid wastes from polluting the environment.

The penalties for any breach of the environmental protection laws vary from ratification orders and fines to administrative sanctions, depending on the degree of damage. Any entity whose construction projects fail to satisfy the requirements of pollution prevention may be ordered to suspend its production or operation and be subject to a fine. The responsible person of the entity may be subject to criminal liabilities for serious breaches resulting in significant damage to private or public property or personal death or injury.

### **RULES AND REGULATIONS ON FOREIGN CURRENCY**

#### **Foreign Exchange Registration (外匯登記)**

According to the No. 75 Notice promulgated on 21 October 2005 by SAFE, domestic resident natural persons or domestic resident legal persons are required to register with the competent local branch of SAFE before they establish or control any offshore special purpose vehicles for capital raising with the assets or equity interest of PRC domestic companies owned by them. According to the No. 75 Notice, resident natural persons include those individuals who have PRC citizenship or other domestic legal status and those “individuals who do not have any domestic legal status in the PRC but reside in the PRC habitually for the purpose of economic interests”. In accordance with Rules and Procedures on Foreign Exchange Control on Capital Items (2009 version) issued by the State Administration of Foreign Exchange (國家外匯管理局於2009年下發的《資本項目外匯管理業務操作規程(2009年版)》), “the individual who does not have domestic legal status in the PRC but resides in the PRC habitually for the purpose of economic interests” mainly include the following (no matter whether he/she has a PRC statutory identification certificate or not),

- (a) individuals who have domestic permanent residence leave this domestic permanent residence temporarily for reasons including overseas travel, study, medical treatment, work, or the requirements of overseas residence, etc, but return back to the place of permanent residence after the cessation of the aforesaid events;
- (b) individuals who hold interests of domestic enterprises; and
- (c) individuals who hold interests in domestic enterprises which were converted into foreign-funded rights and interests with the same individuals holding the aforementioned rights and interests.

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According to the PRC Legal Adviser, the Founders of Xinhua Company fall within the scope of the No. 75 Notice. They are required to register under the No. 75 Notice. The Company confirmed that the Founders of Xinhua Company have submitted their application for registration under No. 75 Notice and the application was accepted by the relevant PRC foreign exchange authority and is awaiting the confirmation on registration. The Directors consider, with the advice from the PRC Legal Adviser, in this case, the registration should be a procedural matter and there will not be any legal impediment to completion of such registration. As confirmed by the PRC Legal Adviser, upon completion of the registration, the Founders of Xinhua Company will be in compliance with the applicable regulations in the PRC on foreign exchange.

### **PRC REGULATIONS ON THE ISSUE AND LISTING OF SHARES OUTSIDE CHINA AND RELEVANT REGULATORY APPROVALS (境外發行股票和上市管理規定及審批)**

#### **The Rules on Merger and Acquisition of Domestic Enterprises by Foreign Investors, etc.**

The Rules on Merger and Acquisition of Domestic Enterprises by Foreign Investors (the “M&A Rules”) (關於外國投資者併購境內企業的規定), which was promulgated by the Ministry of Commerce, the State Asset Supervision and Administration Commission, the CSRC, the State Administration of Taxation, the State Administration for Industry and Commerce and the SAFE became effective on 8 September 2006, amended by the Ministry of Commerce on 22 June 2009 and apply in the event that foreign investors acquire PRC enterprises. The M&A Rules provide that in a case where a domestic enterprise, company or nature person acquires, in the name of its company established or controlled overseas according to law, a domestic company with which it has associated relations, the acquisition shall be submitted to the Ministry of Commerce for examination and approval.

The PRC Legal Adviser advised that since the acquired domestic companies involved in the Reorganisation is Xinhua Company and the foreign companies (namely Gerfalcon Hong Kong, Costin BVI, Gerfalcon International, Nian’s Holding, Nian’s Investment, Gerfalcon Holding, the Pre-IPO Investor and the Company) involved in the Reorganisation are not established nor controlled by domestic enterprise, company or natural person who has associated relations with the above acquired domestic companies. Xinhua Company confirmed that Jinjiang City Bureau of Commerce (晉江市商務局) has made an inquiry with the Fujian Provincial Foreign Trade and Economy Co-operation Bureau (福建省對外貿易經濟合作廳), which is the responsible provincial authority of the Ministry of Commerce of the PRC, who has confirmed that as the actual controllers of Gerfalcon Hong Kong, being Chim Wai Kong, Chim Wai Shing Jackson, Sze Fo Chau and Hui Cheung Mau are Hong Kong residents and not domestic individuals of the PRC, the equity transfer of Xinhua Company to Gerfalcon PRC and Gerfalcon Trading does not fall within the scope of the M&A Rules which require approval from the Ministry of Commerce of the PRC. However, it cannot rule out the possibility that the Ministry of Commerce of the PRC or other competent authorities may provide new stipulations or explanations in respect of the M&A Rules.

Under the PRC Securities Laws (中華人民共和國證券法), it provides that any issue of securities in foreign markets, either directly or indirectly, by domestic enterprises shall make application to the CSRC for approval according to the relevant regulations issued by the State Council. However, as of the date of this prospectus, the State Council has not provided any stipulation in respect of the listing outside China by foreign enterprises indirectly which involves the interests of domestic companies. Moreover, the Reorganisation does not belong to special purpose vehicles stipulated by the M&A Rules,

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which pay for the purchase of shareholding of domestic shareholders or the additional shares issued by domestic companies by the way of additional issue of shares, hence, it is not required to subject to the approval or filing procedures of the CSRC.